

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: FINANCIAL CONCEPTS B (IOBM- D207)**

**Date: Monday, 13th May 2019**

**Time Allocated: 3 hours (08:00 – 11:00 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

1. State **three** types of business entity. *(3 marks)*
2. State **two** major restrictions that could prevent someone from being a director. *(2 marks)*
3. Give **five** duties of the external auditors. *(10 marks)*

(**Total 15 marks)**

**QUESTION 2**

Mr. John Chibadula has a retirement account with MWK 2,000,000 in it. The account earns 6.2% interest, compounded monthly, and he deposits MWK 50,000 every month for the next 20 years.

**Required**

How much will be in the account at the end of those 20 years? **Hint:** Use the following formula for a sinking fund to arrive at the correct answer: -

  **(Total 15 marks)**

**QUESTION 3**

1. State **five** needs of a cash flow statement.  *(5 marks)*
2. State **five** characteristics that makes up a group of companies. *(5 marks)*
3. Give **five** characteristics of a related party. *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

The use of the financial forecast models in order to determine companies that will be successful and those that will fail has gain an increased popularity due to its advantages even if they have limitations, in the Financial Concepts B, you are introduced to Z-Score Model and The De La Rey Model.

**Hint:** *Z score* ****

*De La Rey* *K=-001662(a)+0.111(b)+0.529(c)+0.076(d)+0.017(e)+0.01071(f)-0.6881*

**Required**

1. To demonstrate your understanding of a Z-score Model. *(1 mark)*
2. To demonstrate your understanding of the De La Rey Model. (*2 marks)*
3. To give **three** advantages of the financial forecast models. (*6 marks)*
4. To give **three** limitations of financial forecast models. (*6 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

1. Give **five** advantages of budgeting. *(10 marks)*
2. Give **three** problems of budgeting. *(6 marks)*
3. Give **two** characteristics of a good budget.  *(4 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. (i) What are **two similarities** between budgets and standards? *(4 marks)*

(ii) What are **two differences** between budgets and standards? *(4 marks)*

1. Explain **seven** ways a firm can use standard costing in management decision?

*(6 marks)*

1. Define the following terms:
2. Budget manuals
3. Budget committee
4. Incremental budget *(6 marks)*

**(Total 20 marks)**

**QUESTION 7**

You have been hired as an analyst for Mellon Bank and your team is working on an independent assessment of Daffy Duck Food Inc. (DDF Inc.) DDF Inc. is a firm that specializes in the production of freshly imported farm products from France. Your assistant has provided you with the following data for Flipper Inc and their industry.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ratio** | **1999** | **1998** | **1997** | **1999- Industry Average** |
| Long-term debt | 0.45 | 0.40 | 0.35 | 0.35 |
| Inventory Turnover | 62.65 | 42.42 | 32.25 | 53.25 |
| Depreciation/Total Assets | 0.25 | 0.014 | 0.018 | 0.015 |
| Days’ sales in receivables | 113 | 98 | 94 | 130.25 |
| Debt to Equity | 0.75 | 0.85 | 0.90 | 0.88 |
| Profit Margin | 0.082 | 0.07 | 0.06 | 0.075 |
| Total Asset Turnover | 0.54 | 0.65 | 0.70 | 0.40 |
| Quick Ratio | 1.028 | 1.03 | 1.029 | 1.031 |
| Current Ratio | 1.33 | 1.21 | 1.15 | 1.25 |
| Times Interest Earned | 0.9 | 4.375 | 4.45 | 4.65 |
| Equity Multiplier | 1.75 | 1.85 | 1.90 | 1.88 |

1. In the annual report to the shareholders, the CEO of Flipper Inc wrote, “1997 was a good year for the firm with respect to our ability to meet our short-term obligations. We had higher liquidity largely due to an increase in highly liquid current assets (cash, account receivables and short-term marketable securities).” Is the CEO correct? Explain and use only relevant information in your analysis. *(10 marks)*
2. What can you say about the firm's asset management? Be as complete as possible given the above information, but do not use any irrelevant information. *(5 marks)*
3. You are asked to provide the shareholders with an assessment of the firm's solvency and leverage. Be as complete as possible given the above information, but do not use any irrelevant information. *(5 marks)*

**(Total 20 marks)**

**Question 8**

Chako Ndi Chako Groceries has a capital budget of MWK 30,000 and is considering three possible independent projects.

Project A has an outlay of MK12,000 and yields MK4, 281 per annum for 5 years. Project B has an outlay of MK10,000 and yields MK4, 184 per annum for 5 years. Project C has an outlay of MK 17,000 and yields MK 5, 802 per annum for 10 years.

Funds which are not allocated to one of the projects can be placed in a bank deposit where they will earn 15%.

**Required**

1. Identify six combinations of project investments and a bank deposit which exhaust the budget. *(6 marks)*
2. Which of the above combinations should the firm choose:
3. when the reinvestment rate is 15%? *(6 marks)*
4. when the reinvestment rate is 20%? *(7 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**